

CITY OF CHEROKEE

**INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2010

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2 - 3
 Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 4 - 5
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Changes in	
Cash Balances - Governmental Funds	B 6 - 7
Reconciliation of the Statement of Cash Receipts, Disbursements,	
and Changes in Cash Balances to the Statement of Activities and	
Net Assets - Governmental Funds	C 8
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Changes in	
Cash Balances - Proprietary Funds	D 9
Fiduciary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Change in	
Cash Balance - Fiduciary Fund	E 10
Notes to Financial Statements	11 - 19
 Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and	
Changes in Balances - Budget and Actual (Cash Basis) - All	
Governmental Funds and Proprietary Funds	20 - 21
Notes to Required Supplementary Information - Budgetary Reporting	22
 Other Supplementary Information:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements, and Changes in	
Cash Balances - Nonmajor Governmental Funds	1 23 - 24
Schedule of Cash Receipts, Disbursements, and Changes in	
Cash Balances - Nonmajor Proprietary Funds	2 25
Schedule of Indebtedness	3 26 - 27
Note Maturities	4 28 - 29
Schedule of Receipts by Source and Disbursements by Function -	
All Governmental Funds	5 30 - 31
Independent Auditors' Report on Internal Control over Financial	
Reporting and on Compliance and Other Matters Based on an Audit	
of Financial Statements Performed in Accordance with Government	
Auditing Standards	32 - 33
Schedule of Findings	34 - 36

CITY OF CHEROKEE OFFICIALS

(Before January 1, 2010)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Pamela Pierce	Mayor	January 2010
Bob Leach	Council Member, Mayor Pro-Tem	January 2010
Linda Burkhart	Council Member	January 2012
Greg Stieneke	Council Member	January 2012
Jim Peck	Council Member	January 2012
Mick Mallory	Council Member	January 2014
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

(After January 1, 2010)

Mark Murphy	Mayor	January 2014
Linda Burkhart	Council Member, Mayor Pro-Tem	January 2012
Greg Stieneke	Council Member	January 2012
Jim Peck	Council Member	January 2012
Mick Mallory	Council Member	January 2014
Dan Morrow	Council Member	January 2014
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component units required to be discretely presented totaling \$367,420, \$-0-, \$367,420, \$264,511, and \$162,237, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity

with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the City of Cherokee, Iowa, as of June 30, 2010, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Cherokee at June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Wintner, Stoe & Co. LLP". The signature is written in a cursive, flowing style.

December 23, 2010

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

		Program Receipts		
		Charges for	Operating	Capital
	Disbursements	Service	Grants and	Grants and
			Contributions	Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 853,192	\$ 34,265	\$ 7,564	
Public works	788,790		498,038	
Culture and recreation	775,285	152,472	18,201	
Community and economic development	4,920			
General government	121,574			
Debt service	1,526,802			\$ 17,242
Capital projects	18,543			
Total governmental activities	<u>4,089,106</u>	<u>186,737</u>	<u>523,803</u>	<u>17,242</u>
Business-type activities:				
Water	872,774	878,848		
Sewer	1,348,034	1,022,989		
Landfill	138,756	140,095		
Solid waste	252,691	257,643		
Storm water	684	81,135		
Total business-type activities	<u>2,612,939</u>	<u>2,380,710</u>		
TOTAL	<u>\$6,702,045</u>	<u>\$2,567,447</u>	<u>\$ 523,803</u>	<u>\$ 17,242</u>
General Receipts:				
Property taxes and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment interest				
Bond proceeds				
Refunded bond debt service				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets - beginning of year .				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted, expendable:				
Debt service				
Road use				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (811,363)		\$ (811,363)
(290,752)		(290,752)
(604,612)		(604,612)
(4,920)		(4,920)
(121,574)		(121,574)
(1,509,560)		(1,509,560)
(18,543)		(18,543)
<u>(3,361,324)</u>		<u>(3,361,324)</u>
	\$ 6,074	6,074
	(325,045)	(325,045)
	1,339	1,339
	4,952	4,952
	<u>80,451</u>	<u>80,451</u>
	<u>(232,229)</u>	<u>(232,229)</u>
<u>(3,361,324)</u>	<u>(232,229)</u>	<u>(3,593,553)</u>
1,388,077		1,388,077
280,549		280,549
641,823		641,823
478,811		478,811
73,359		73,359
4,456		4,456
46,864	2,257	49,121
2,830,000		2,830,000
(2,775,000)		(2,775,000)
238,649	8,700	247,349
<u>119,309</u>	<u>(119,309)</u>	
<u>3,326,897</u>	<u>(108,352)</u>	<u>3,218,545</u>
(34,427)	(340,581)	(375,008)
<u>2,097,414</u>	<u>772,955</u>	<u>2,870,369</u>
<u>\$ 2,062,987</u>	<u>\$ 432,374</u>	<u>\$ 2,495,361</u>
\$ 52,521	\$ 41,145	\$ 93,666
1,581		1,581
32,196		32,196
1,912,292		1,912,292
<u>64,397</u>	<u>391,229</u>	<u>455,626</u>
<u>\$ 2,062,987</u>	<u>\$ 432,374</u>	<u>\$ 2,495,361</u>

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use</u>	<u>Employee Benefits</u>
RECEIPTS:			
Property tax	\$ 880,013		\$ 469,115
Tax increment financing			
Other city taxes	11,926		
Licenses and permits	15,669		
Use of money and property	12,235		102
Intergovernmental	20,564	\$ 498,038	
Charges for service	175,524		
Special assessments			
Miscellaneous	96,896	204,709	36,609
TOTAL RECEIPTS	<u>1,212,827</u>	<u>702,747</u>	<u>505,826</u>
DISBURSEMENTS:			
Operating:			
Public safety	591,188		261,875
Public works		731,191	92,013
Culture and recreation	557,080		97,219
Community and economic development	165		
General government	264,576		67,940
Debt service			
Capital projects			
TOTAL DISBURSEMENTS	<u>1,413,009</u>	<u>731,191</u>	<u>519,047</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(200,182)</u>	<u>(28,444)</u>	<u>(13,221)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds			
Refunded bond debt service			
Operating transfers in	210,942	55,956	15,796
Operating transfers out		(71,180)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>210,942</u>	<u>(15,224)</u>	<u>15,796</u>
NET CHANGE IN CASH BALANCES	10,760	(43,668)	2,575
CASH BALANCES - BEGINNING OF YEAR	<u>53,637</u>	<u>45,249</u>	<u>29,621</u>
CASH BALANCES - END OF YEAR	<u>\$ 64,397</u>	<u>\$ 1,581</u>	<u>\$ 32,196</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service			
Unreserved:			
General fund	\$ 64,397		
Special revenue funds		\$ 1,581	\$ 32,196
Capital projects fund			
Permanent fund			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 64,397</u>	<u>\$ 1,581</u>	<u>\$ 32,196</u>

Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
	\$ 641,823	\$ 27,023	\$2,017,974
		280,549	280,549
		552,170	564,096
			15,669
\$ 27,203	3,669	3,655	46,864
		5,201	523,803
			175,524
	17,242		17,242
<u>111,560</u>	<u>13,721</u>	<u>26,848</u>	<u>490,343</u>
<u>138,763</u>	<u>676,455</u>	<u>895,446</u>	<u>4,132,064</u>
129			853,192
3,717			826,921
		120,986	775,285
4,755			4,920
			332,516
365,000	1,161,802		1,526,802
<u>15,499</u>		<u>3,044</u>	<u>18,543</u>
<u>389,100</u>	<u>1,161,802</u>	<u>124,030</u>	<u>4,338,179</u>
<u>(250,337)</u>	<u>(485,347)</u>	<u>771,416</u>	<u>(206,115)</u>
	2,830,000		2,830,000
	(2,775,000)		(2,775,000)
82,023	456,173		820,890
<u>(70,308)</u>		<u>(560,093)</u>	<u>(701,581)</u>
<u>11,715</u>	<u>511,173</u>	<u>(560,093)</u>	<u>174,309</u>
(238,622)	25,826	211,323	(31,806)
<u>946,815</u>	<u>26,695</u>	<u>885,157</u>	<u>1,987,174</u>
<u>\$ 708,193</u>	<u>\$ 52,521</u>	<u>\$1,096,480</u>	<u>\$1,955,368</u>
	\$ 52,521		\$ 52,521
			64,397
\$ 708,193		\$ 953,716	987,493
			708,193
		<u>142,764</u>	<u>142,764</u>
<u>\$ 708,193</u>	<u>\$ 52,521</u>	<u>\$1,096,480</u>	<u>\$1,955,368</u>

See Notes to Financial Statements

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7)	\$1,955,368
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>107,619</u>
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CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$2,062,987</u>
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NET CHANGE IN CASH BALANCES (Page 7)	\$ (31,806)
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	<u>(2,621)</u>
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CHANGE IN CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$ (34,427)</u>
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CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$947,465	\$1,141,345	\$478,873	\$2,567,683	
Use of money and property	1,395	786	76	2,257	\$ 259
Miscellaneous	678	8,022		8,700	6,226
TOTAL OPERATING RECEIPTS	<u>949,538</u>	<u>1,150,153</u>	<u>478,949</u>	<u>2,578,640</u>	<u>6,485</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>736,241</u>	<u>1,082,395</u>	<u>392,131</u>	<u>2,210,767</u>	<u>9,106</u>
TOTAL OPERATING DISBURSEMENTS	<u>736,241</u>	<u>1,082,395</u>	<u>392,131</u>	<u>2,210,767</u>	<u>9,106</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>213,297</u>	<u>67,758</u>	<u>86,818</u>	<u>367,873</u>	<u>(2,621)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Debt service	<u>(205,150)</u>	<u>(383,995)</u>		<u>(589,145)</u>	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(205,150)</u>	<u>(383,995)</u>		<u>(589,145)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	8,147	(316,237)	86,818	(221,272)	(2,621)
Transfers - net	<u>(70,212)</u>	<u>(55,204)</u>	<u>6,107</u>	<u>(119,309)</u>	
NET CHANGE IN CASH BALANCES	(62,065)	(371,441)	92,925	(340,581)	(2,621)
CASH BALANCES - BEGINNING OF YEAR	<u>524,187</u>	<u>270,786</u>	<u>(22,018)</u>	<u>772,955</u>	<u>110,240</u>
CASH BALANCES - END OF YEAR	<u>\$462,122</u>	<u>\$ (100,655)</u>	<u>\$ 70,907</u>	<u>\$ 432,374</u>	<u>\$107,619</u>
CASH BASIS FUND BALANCES:					
Reserve for debt service		\$ 41,145		\$ 41,145	
Unreserved	<u>\$462,122</u>	<u>(141,800)</u>	<u>\$ 70,907</u>	<u>391,229</u>	<u>\$107,619</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$462,122</u>	<u>\$ (100,655)</u>	<u>\$ 70,907</u>	<u>\$ 432,374</u>	<u>\$107,619</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH BALANCE
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2010

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR	\$ _____
RECEIPTS:	
Property tax	15,013
Miscellaneous	<u>7,545</u>
TOTAL RECEIPTS	22,558
DISBURSEMENTS:	
To other governments	<u>(22,892)</u>
CASH BALANCE - END OF YEAR	<u>\$ (334)</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation, Cherokee Volunteer Fire Department Foundation, and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles as they relate to the exclusion of the component units.

Cherokee Community Foundation, Cherokee Volunteer Fire Department Foundation, and Cherokee Public Library Foundation are considered component units of the City of Cherokee, since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported as an Agency fund of the City.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

E. Subsequent Events

Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND POOLED INVESTMENTS - Continued

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2010.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue notes and bonds are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Notes/Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 873,000	\$105,884	\$ 755,000	\$163,400	\$1,628,000	\$ 269,284
2012	910,000	83,420	763,000	130,750	1,673,000	214,170
2013	915,000	66,934	273,000	97,860	1,188,000	164,794
2014	570,000	48,658	284,000	89,670	854,000	138,328
2015	590,000	35,728	293,000	81,150	883,000	116,878
2016 - 2020	535,000	39,138	1,625,000	267,690	2,160,000	306,828
2021 - 2024			787,000	42,870	787,000	42,870
Total	<u>\$4,393,000</u>	<u>\$379,762</u>	<u>\$4,780,000</u>	<u>\$873,390</u>	<u>\$9,173,000</u>	<u>\$1,253,152</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Revenue Notes/Bonds

The City has pledged future aquatic center pledge receipts to repay \$1,650,000 in aquatic center revenue bonds issued in February 2007. Proceeds from the bonds provided financing for construction of a new aquatic center. The bonds are payable solely from aquatic center pledge receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require 100% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,075,000. For the current year, principal and interest paid and total pledge receipts were \$365,000 and \$106,705, respectively.

The City has pledged future water customer receipts net of specified operating disbursements to repay \$1,330,000 in water revenue bonds issued in April 2002. Proceeds from the bonds were used to refinance outstanding bonds for a 1994 water plant and mains project. The bonds are payable solely from water customer net receipts and were paid in full during 2010.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. BONDS AND NOTES PAYABLE - Continued

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,560,000 in sewer revenue bonds issued in 1999 and 2002. Proceeds from the bonds provided financing for sewer system improvements. The bonds are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require less than 83% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,578,390. For the current year, principal and interest paid and total customer net receipts were \$383,995 and \$67,758, respectively.

The resolutions providing for the issuance of sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

At June 30, 2010, the balance of the bond and interest sinking fund is \$41,145.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$99,308, \$90,175, and \$84,059, respectively, equal to the required contributions for each year.

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There is one retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The city currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$402 for single coverage to \$1,234 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the plan member eligible for benefits contributed \$9,881 to the plan.

6. COMPENSATED ABSENCES

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is \$216,189.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2010.

7. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$138,001 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county.

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Landfill	Capital Projects	<u>\$ 15,605</u>
Debt Service	Special Revenue: Local Option Sales Tax	300,000
	Special Revenue: Urban Renewal TIF	120,470
	Capital Projects	<u>35,703</u>
Total Transfers to Debt Service		<u>456,173</u>
Capital Projects	Special Revenue: Road Use	35,000
	Special Revenue: Emergency	27,023
	Special Revenue: Hotel/motel tax	<u>20,000</u>
Total Transfers to Capital Projects		<u>82,023</u>

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

8. INTERFUND TRANSFERS - Continued

Sewer	Special Revenue: Urban Renewal TIF	<u>\$ 51,600</u>
General	Capital Projects	19,000
	Special Revenue: Hotel/Motel Tax	10,000
	Special Revenue: Road Use	36,180
	Proprietary: Water	70,212
	Proprietary: Sewer	66,052
	Proprietary: Solid waste	7,697
	Proprietary: Landfill	<u>1,801</u>
Total Transfers to General		<u>210,942</u>
Road Use	Special Revenue: Local Options Sales Tax	31,000
	Sewer	<u>24,956</u>
Total Transfers to Road Use		<u>55,956</u>
Employee Benefits	Sewer	<u>15,796</u>
Total		<u>\$888,095</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$1,000 during the year ended June 30, 2010.

10. RISK MANAGEMENT

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

10. RISK MANAGEMENT - Continued

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2010 were \$110,609.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions; however, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

11. LOANS RECEIVABLE

At June 30, 2010, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%.	\$ 9,297
Headlines - \$10,000 loan on May 1, 2008, payable in 120 monthly payments of \$111.02, including interest at 6%.	<u>8,310</u>
TOTAL	<u>\$ 17,607</u>

12. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2010:

<u>Fund</u>	<u>Deficit Balance June 30, 2010</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Special Revenue:			
Hotel/Motel	\$ (2,103)	Increase in expenditures	Reduce spending
Proprietary:			
Sewer	\$(100,655)	Increase in expenditures	Reduce spending
Solid waste	\$ (1,895)	Increase in expenditures	Reduce spending
Fiduciary:			
Cherokee Aviation Authority	\$ (334)	Prepaid expenditures	Receive reimbursement prior to paying expenditures

13. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

14. COMMITMENT

At June 30, 2010, the City had construction contracts for the infrastructure projects totaling approximately \$443,000 of which approximately \$20,602 remained outstanding.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$2,017,974		
Tax increment financing collections	280,549		
Other city taxes	564,096		
Licenses and permits	15,669		
Use of money and property	46,864	\$ 2,516	
Intergovernmental	523,803		
Charges for service	175,524	2,567,683	\$186,973
Special assessments	17,242		
Miscellaneous	490,343	14,926	251,694
TOTAL RECEIPTS	<u>4,132,064</u>	<u>2,585,125</u>	<u>438,667</u>
DISBURSEMENTS:			
Public safety	853,192		
Public works	826,921		40,752
Culture and recreation	775,285		
Community and economic development	4,920		
General government	332,516		210,942
Debt service	1,526,802		
Capital projects	18,543		
Business-type activities		2,809,018	189,594
TOTAL DISBURSEMENTS	<u>4,338,179</u>	<u>2,809,018</u>	<u>441,288</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	(206,115)	(223,893)	(2,621)
OTHER FINANCING SOURCES - NET	<u>174,309</u>	<u>(119,309)</u>	
DEFICIENCY OF RECEIPTS AND OTHER FINANCING SOURCES UNDER DISBURSEMENTS AND OTHER FINANCING USES	(31,806)	(343,202)	(2,621)
BALANCES - BEGINNING OF YEAR	<u>1,987,174</u>	<u>883,195</u>	<u>110,240</u>
BALANCES - END OF YEAR	<u>\$1,955,368</u>	<u>\$ 539,993</u>	<u>\$ 107,619</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$2,017,974	\$1,967,341	\$ 1,967,341	\$ 50,633
280,549	281,289	281,289	(740)
564,096	620,331	620,331	(56,235)
15,669	16,800	16,800	(1,131)
49,380	34,722	34,722	14,658
523,803	499,938	637,200	(113,397)
2,556,234	2,741,590	2,741,590	(185,356)
17,242	26,750	26,750	(9,508)
<u>253,575</u>	<u>912,819</u>	<u>912,819</u>	<u>(659,244)</u>
<u>6,278,522</u>	<u>7,101,580</u>	<u>7,238,842</u>	<u>(960,320)</u>
853,192	859,860	859,860	6,668
786,169	658,073	889,427	103,258
775,285	812,682	832,032	56,747
4,920	10,350	10,350	5,430
121,574	333,125	333,125	211,551
1,526,802	1,101,300	3,890,523	2,363,721
18,543			(18,543)
<u>2,619,424</u>	<u>3,881,834</u>	<u>3,881,834</u>	<u>1,262,410</u>
<u>6,705,909</u>	<u>7,657,224</u>	<u>10,697,151</u>	<u>3,991,242</u>
(427,387)	(555,644)	(3,458,309)	(3,030,922)
<u>55,000</u>	<u>275,000</u>	<u>3,004,962</u>	<u>2,949,962</u>
(372,387)	<u>\$ (280,644)</u>	<u>\$ (453,347)</u>	<u>\$ (80,960)</u>
<u>2,760,129</u>			
<u>\$2,387,742</u>			

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$3,039,927. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the capital projects function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Hotel/ Motel</u>
RECEIPTS:			
Property tax	\$ 27,023		
Tax increment financing			
Other city taxes		\$478,811	\$ 73,359
Use of money and property		2,606	60
Intergovernmental			
Miscellaneous			2,350
TOTAL RECEIPTS	<u>27,023</u>	<u>481,417</u>	<u>75,769</u>
DISBURSEMENTS:			
Governmental activities:			
Culture and recreation			67,065
Capital projects			
TOTAL DISBURSEMENTS			<u>67,065</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	27,023	481,417	8,704
OPERATING TRANSFERS OUT	<u>(27,023)</u>	<u>(331,000)</u>	<u>(30,000)</u>
NET CHANGE IN CASH BALANCES		150,417	(21,296)
CASH BALANCES - BEGINNING OF YEAR		<u>507,362</u>	<u>19,193</u>
CASH BALANCES - END OF YEAR	<u>\$</u>	<u>\$657,779</u>	<u>\$ (2,103)</u>
CASH BASIS FUND BALANCES:			
Unreserved:			
Special revenue funds		\$657,779	\$ (2,103)
Permanent fund			
TOTAL CASH BASIS FUND BALANCES	<u>\$</u>	<u>\$657,779</u>	<u>\$ (2,103)</u>

<u>Special Revenue</u>				<u>Permanent</u>	
<u>Urban</u> <u>Renewal</u> <u>TIF</u>	<u>Revolving</u> <u>Loan</u>	<u>Library</u> <u>Memorial</u>	<u>Parks & Recreation</u> <u>Capital</u> <u>Improvements</u>	<u>Oak Hill</u> <u>Perpetual</u> <u>Care</u>	<u>Total</u>
					\$ 27,023
\$280,549					280,549
					552,170
	\$ 192	\$ 19	\$ 108	\$ 670	3,655
		5,201			5,201
	3,874	9,195	10,293	1,136	26,848
<u>280,549</u>	<u>4,066</u>	<u>14,415</u>	<u>10,401</u>	<u>1,806</u>	<u>895,446</u>
		15,696	32,045	6,180	120,986
<u>3,044</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>3,044</u>
<u>3,044</u>	<u> </u>	<u>15,696</u>	<u>32,045</u>	<u>6,180</u>	<u>124,030</u>
277,505	4,066	(1,281)	(21,644)	(4,374)	771,416
<u>(172,070)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(560,093)</u>
105,435	4,066	(1,281)	(21,644)	(4,374)	211,323
<u>57,613</u>	<u>79,522</u>	<u>9,392</u>	<u>64,937</u>	<u>147,138</u>	<u>885,157</u>
<u>\$163,048</u>	<u>\$ 83,588</u>	<u>\$ 8,111</u>	<u>\$ 43,293</u>	<u>\$142,764</u>	<u>\$1,096,480</u>
\$163,048	\$ 83,588	\$ 8,111	\$ 43,293		\$ 953,716
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>\$142,764</u>	<u>142,764</u>
<u>\$163,048</u>	<u>\$ 83,588</u>	<u>\$ 8,111</u>	<u>\$ 43,293</u>	<u>\$142,764</u>	<u>\$1,096,480</u>

CITY OF CHEROKEE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds			
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:				
Charges for service	\$140,095	\$257,643	\$ 81,135	\$478,873
Use of money and property			76	76
TOTAL OPERATING RECEIPTS	<u>140,095</u>	<u>257,643</u>	<u>81,211</u>	<u>478,949</u>
OPERATING DISBURSEMENTS:				
Business type activities	<u>138,756</u>	<u>252,691</u>	<u>684</u>	<u>392,131</u>
TOTAL OPERATING DISBURSEMENTS	<u>138,756</u>	<u>252,691</u>	<u>684</u>	<u>392,131</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	1,339	4,952	80,527	86,818
TRANSFERS - NET	<u>13,804</u>	<u>(7,697)</u>		<u>6,107</u>
NET CHANGE IN CASH BALANCES	15,143	(2,745)	80,527	92,925
CASH BALANCES - BEGINNING OF YEAR	<u>(13,002)</u>	<u>850</u>	<u>(9,866)</u>	<u>(22,018)</u>
CASH BALANCES - END OF YEAR	<u>\$ 2,141</u>	<u>\$ (1,895)</u>	<u>\$ 70,661</u>	<u>\$ 70,907</u>
CASH BASIS FUND BALANCES:				
Unreserved	<u>\$ 2,141</u>	<u>\$ (1,895)</u>	<u>\$ 70,661</u>	<u>\$ 70,907</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 2,141</u>	<u>\$ (1,895)</u>	<u>\$ 70,661</u>	<u>\$ 70,907</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	\$1,000,000	\$ 565,000
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	765,000
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	3,200,000	2,000,000
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	400,000	330,000
Essential corporate purpose (street sweeper)	11-01-06	4.75%	150,000	99,000
Essential corporate purpose (fire rescue truck)	7-01-08	2.70 - 4.00%	595,000	540,000
Essential corporate purpose	6-01-09	1.35 - 4.125%	945,000	945,000
2010 refunding loan	3-10-10	.85 - 2.65%	2,830,000	_____
TOTAL				<u>\$5,244,000</u>

Revenue Notes:				
Sewer	9-30-99	3.00%	\$2,170,000	\$1,509,000
Water	4-01-02	3.25 - 5.00%	1,330,000	195,000
Sewer	6-19-02	3.00%	3,390,000	2,517,000
Aquatic center	2-02-07	5.00%	1,650,000	<u>1,300,000</u>
TOTAL				<u>\$5,521,000</u>

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 565,000		\$ 31,570	
	765,000		19,417	
	2,000,000		82,420	
	35,000	\$295,000	14,505	
	31,000	68,000	4,703	
	50,000	490,000	19,365	
	235,000	710,000	20,986	
<u>\$2,830,000</u>	<u> </u>	<u>2,830,000</u>	<u> </u>	<u> </u>
<u>\$2,830,000</u>	<u>\$3,681,000</u>	<u>\$4,393,000</u>	<u>\$192,966</u>	<u>\$ </u>
	\$ 99,000	\$1,410,000	\$ 54,550	
	195,000		9,750	
	147,000	2,370,000	75,510	
<u> </u>	<u>300,000</u>	<u>1,000,000</u>	<u>65,000</u>	<u> </u>
<u>\$ </u>	<u>\$ 741,000</u>	<u>\$4,780,000</u>	<u>\$204,810</u>	<u>\$ </u>

CITY OF CHEROKEE
NOTE MATURITIES
JUNE 30, 2010

General Obligation Notes

Miscellaneous Projects

Year Ending June 30,	<u>Issued 3-10-2010</u>		<u>Issued 8-15-2006</u>		<u>Issued 11-01-2006</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2011	.85%	\$ 595,000	4.25%	\$ 35,000	4.75%	\$ 33,000
2012	1.30%	620,000	4.30%	40,000	4.75%	35,000
2013	1.60%	625,000	4.35%	40,000		
2014	1.85%	440,000	4.40%	40,000		
2015	2.25%	450,000	4.45%	45,000		
2016	2.65%	100,000	4.50%	45,000		
2017			4.60%	50,000		
2018						
2019						
TOTAL		<u>\$2,830,000</u>		<u>\$ 295,000</u>		<u>\$ 68,000</u>

Revenue Notes

Year Ending June 30,	<u>Sewer Issued 9-30-99</u>		<u>Sewer Issued 6-19-02</u>		<u>Aquatic Issued 2-02-07</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2011	3.00%	\$ 103,000	3.00%	\$ 152,000	5.00%	\$ 500,000
2012	3.00%	107,000	3.00%	156,000	5.00%	500,000
2013	3.00%	112,000	3.00%	161,000		
2014	3.00%	118,000	3.00%	166,000		
2015	3.00%	122,000	3.00%	171,000		
2016	3.00%	127,000	3.00%	176,000		
2017	3.00%	132,000	3.00%	181,000		
2018	3.00%	138,000	3.00%	187,000		
2019	3.00%	144,000	3.00%	192,000		
2020	3.00%	150,000	3.00%	198,000		
2021	3.00%	157,000	3.00%	204,000		
2022			3.00%	210,000		
2023			3.00%	216,000		
TOTAL		<u>\$1,410,000</u>		<u>\$2,370,000</u>		<u>\$1,000,000</u>

Miscellaneous Projects				
Issued 7-01-2008		Issued 6-01-2009		
Interest Rates	Amount	Interest Rates	Amount	Total
3.15%	\$ 55,000	1.75%	\$ 155,000	\$ 873,000
3.35%	55,000	2.00%	160,000	910,000
3.45%	60,000	2.35%	190,000	915,000
3.55%	60,000	3.00%	30,000	570,000
3.70%	60,000	3.30%	35,000	590,000
3.85%	65,000	3.50%	35,000	245,000
3.95%	65,000	3.75%	35,000	150,000
4.00%	70,000	4.00%	35,000	105,000
		4.125%	35,000	35,000
	<u>\$ 490,000</u>		<u>\$ 710,000</u>	<u>\$4,393,000</u>

Total
 \$ 755,000
 763,000
 273,000
 284,000
 293,000
 303,000
 313,000
 325,000
 336,000
 348,000
 361,000
 210,000
216,000
\$4,780,000

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST EIGHT YEARS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
RECEIPTS:			
Property and other city tax	\$2,582,070	\$2,261,960	\$2,206,233
Tax increment financing	280,549	218,619	202,182
Licenses and permits	15,669	26,537	28,364
Use of money and property	46,864	97,953	132,896
Intergovernmental	523,803	765,607	567,671
Charges for service	175,524	140,477	171,005
Special assessments	17,242	18,272	36,770
Miscellaneous	<u>490,343</u>	<u>521,807</u>	<u>679,773</u>
 TOTAL REVENUES	 <u>\$4,132,064</u>	 <u>\$4,051,232</u>	 <u>\$4,024,894</u>
 DISBURSEMENTS:			
Public safety	\$ 853,192	\$1,345,016	\$ 870,531
Public works	826,921	665,083	761,497
Culture and recreation	775,285	757,638	1,345,196
Community and economic development	4,920	1,641	12,361
General government	332,516	345,061	230,641
Debt service	1,526,802	2,113,371	1,283,427
Capital projects	<u>18,543</u>	<u>291,658</u>	<u>139,788</u>
 TOTAL EXPENDITURES	 <u>\$4,338,179</u>	 <u>\$5,519,468</u>	 <u>\$4,643,441</u>

Schedule 5

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$2,135,270	\$2,115,269	\$1,980,336	\$2,073,806	\$1,976,920
205,308	170,779	221,297	203,467	225,979
25,777	27,469	25,519	27,128	24,229
163,893	193,391	133,901	88,240	88,156
887,099	487,336	528,684	1,184,756	695,258
101,431	59,620	69,978	82,648	75,819
25,830	52,077	225,640	24,633	46,920
<u>1,358,900</u>	<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>	<u>427,510</u>
<u>\$4,903,508</u>	<u>\$3,673,375</u>	<u>\$3,555,943</u>	<u>\$4,889,283</u>	<u>\$3,560,791</u>
\$ 922,236	\$ 935,557	\$ 842,842	\$ 825,650	\$ 851,784
738,554	486,313	629,256	475,612	1,332,189
680,192	909,802	686,449	672,576	887,527
635	1,777	6,944	99,075	115,244
303,901	295,914	285,331	288,555	304,447
983,395	1,192,475	2,161,195	4,033,976	2,273,282
<u>3,032,922</u>	<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>	<u> </u>
<u>\$6,661,835</u>	<u>\$4,033,245</u>	<u>\$4,781,667</u>	<u>\$9,379,641</u>	<u>\$5,764,473</u>

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated December 23, 2010. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cherokee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as describe in the accompany Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as Item I-A-10 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Cynthia A. Lipp". The signature is written in a cursive, flowing style.

December 23, 2010

CITY OF CHEROKEE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements

Internal Control Deficiency:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that custody of receipts, preparation of bank deposits, and posting of cash receipts to the cash receipts journal can be done by the same individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider our control procedures.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting

- II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the capital projects function. In addition, disbursements in the public works function exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-10 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

- II-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting - Continued

II-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-10 Revenue Notes - The City has complied with various water and sewer revenue note resolutions.

II-I-10 Financial Condition - The following funds had a deficit balance at June 30, 2010:

Special Revenue	- Hotel/Motel
Proprietary	- Sewer
	- Solid waste
Fiduciary	- Cherokee Aviation Authority

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Special Revenue	- Hotel/Motel	Reduce spending
Proprietary	- Sewer	Reduce spending
	- Solid waste	Reduce spending
Fiduciary	- Cherokee Aviation Authority	Receive reimbursement prior to paying expenditures

Conclusion - Response accepted.